Federal Crop Insurance Corporation
July 7, 1945

OUTLINE OF TENTATIVE PLAN FOR CROP INSURANCE ON A TRIAL BASIS FOR POTATOES DEVELOPED AT A MEETING OF REPRESENTATIVES OF POTATO PRODUCERS AND THE FEDERAL CROP INSURANCE CORPORATION

(For Discussion Purposes Only - Not for Publication)

1. Federal crop insurance on a trial basis would be made available in 1946 on potatoes in representative counties in a number of states. These counties would have to be representative of the various areas and types of production in the country. In addition to being representative of the various producing areas there would have to be sufficient data available from which to develop an actuarial basis. Final selection of the counties would be by the Board of Directors of the Corporation.

2. Plans of Insurance

Under the provisions of the Federal Crop Insurance Act insurance could be tried on the basis of insurance against loss of yield or against loss of investment in the crop. The amount of coverage under yield insurance could not exceed 75 percent of the average yield for the farm and the amount of coverage under investment insurance could not exceed 75 percent of the investment in the crop. Producers of potatoes are subject to risks against (1) loss of yield, (2) loss due to poor quality, and (3) loss due to low prices. All three of these risks would be covered under the mechanics of investment insurance but due to the existence of a support price under other programs little, if any, of the price risk would be involved. The crop insurance program was not intended for insurance against risk of price decline. Under present circumstances with the existence of a support price, it appears that the investment plan of insurance can be used covering essentially only the loss in yields and loss in quality; thus under this plan staying within the scope of the Corporation's legitimate field of operations.

Most of the representatives at the meeting were in favor of the use of the investment plan of insurance. As a consequence a program has been so designed. However, it was believed that insurance against loss of yield should also be tried in a few counties.

3. The Proposed Plan of Investment Insurance

Studies would be made in the selected counties of the cost per acre of producing potatoes. A schedule of typical costs for the county would be developed using representative figures reflecting the cost of each operation. Thus, for example, plowing might be set at $2.00 per acre, the cost of one cultivation at $1.25 per acre, fertilizer at $_____ per ton, and use of land at $_____ per acre. These would be standard costs to be used in the county for each operation or each item of cost. Costs for harvesting instead of

being based on an acreage basis would be based on a cost per hundred pounds giving consideration to the fact that in case of a small crop the cost per hundred pounds might be higher than with an average or better than average crop.

From these standard costs per operation a representative or typical over-all cost per acre would be developed for the county (or area within the county) and a maximum allowable cost per acre would be developed. The typical or maximum coverage would be three-fourths of this amount. If there are areas in the county that differ substantially in methods and costs of production, separate figures would be established for coverage and possibly premium rates. At the time of application for insurance the exact amount of insurance coverage per acre on the individual farm insured would not be known. The typical amount of coverage per acre and the maximum per acre for the county would be known. Coverage for the individual farm would be determined only in the event of a claim for loss.

The insured would be expected to keep a record to substantiate his claim as to the amount of his investment in the event of a loss. Should a loss be claimed the adjuster and the insured would prepare a list of operations, materials, etc., using for each operation, the standard cost figure for the county, determined in advance. The total costs would include all processes and investment up through harvesting including digging, picking, grading, bags, and hauling to the local market but would not include transportation beyond the local shipping point or market. It would not include storage costs. Three-fourths of his total cost so determined would be his coverage but could not exceed the maximum coverage per acre established in advance for the county. It also could not exceed the value, of the support price for potatoes in the area, of three-fourths of his average yield over a representative period.

In the event that the crop was released by the Corporation and not harvested because it was totally or substantially destroyed, the coverage would include only the costs incurred up to such time.

Notice of loss should be given to the Corporation before digging if a loss is anticipated. Losses would be adjusted soon after the crop was harvested; adjustment would not be deferred until after storage and later sale. If the potatoes had not been graded at the time of adjustment the grades would be determined from samples. The adjustment of loss should not delay the sale or other disposition of the crop. If loss could not be adjusted immediately, the insured should proceed with the disposition or storage necessary to protect the crop -- keeping adequate records.

If the crop were sold immediately the production would be evaluated at the higher of (1) the price actually received by the grower, or (2) the current average local quoted f.o.b. price as of the day of sale, or (3) the support price in the locality. For potatoes not sold at the time of the adjustment, the crop would be evaluated at the higher of (2) or (3) above.

(This provision is somewhat different than the plan generally agreed on at the conference. However, at a meeting of representatives of the Department following the conference it was considered inadvisable to delay the determination of loss until after storage and possibly after shipment to determine the price received at a later date. Many losses are incurred during this period and in determining the income from the crop it would be impossible to segregate such losses from those incurred during the growing period.)

4. Discussion of Some of the Features of the Above Plan

(a) The determination of the actual amount of coverage only in cases in which a loss is claimed represents a deviation from the practice on corn and tobacco insurance in which an average cost is established for the county and is a coverage set in advance on each contract. The question may be raised whether the variation within the county between producers is large enough that individual determination of coverage is necessary. It also is possible that individuals, when a loss is claimed, may tend to overstate their operations thus making a higher coverage than is justified although this would be prevented to some extent by the use of a maximum county figure. It makes it necessary also for the insured to keep a record of certain items of cost. It would be possible to use an average coverage per acre figure for the county and in the event the insured does not perform all operations there would be a reduction from the average coverage. Generally, it would be more difficult for the adjuster to reduce a set coverage than to build up a small coverage. To reduce a pre-established coverage figure because of failure to follow certain operations the burden of proof would be on the adjuster whereas if the insured is expected, in the event of a claim for loss, to build up his coverage, the burden of proof is on him. Furthermore, the harvesting costs cannot very well be determined in advance but can be determined much better after the crop is harvested because the costs depend considerably on the size of the crop. It may be possible to eliminate some of the work by setting up a total cost figure for 8 or 10 of the basic operations that all producers have to carry out leaving such things as the amount of fertilizer, seed, harvesting costs, spraying costs, etc., for individual determination.

One advantage of the plan of determining the coverage individually in the event of a loss claim is the added incentive to protect a crop that is already damaged. If, for example, under a pre-determined coverage the crop is so damaged that a loss is probable the insured might not be inclined to spray as many times as necessary because it will not affect his total income since that will be the amount of coverage. If he knows, however, that his coverage will be increased by the cost of this extra spraying he will be more inclined to protect the crop and that protection is important to the Corporation because any saving on the crop at that stage is a saving in indemnities for the Corporation.

The plan of varying the cost with individual producers might perhaps also have a good psychological effect in that the efficient producer would feel that his better and more intensive operations are receiving credit.

It might avoid some adverse selection in the insurance that would occur if all were treated alike regardless of efficiency of operations. Furthermore, the plan is a more realistic protection against loss of investment than a plan in which everybody has the same coverage per acre.

On the other hand, a uniform coverage for all producers in the county is more simple.

(b) The establishment of standard costs by operations would have to be done in advance by representatives of the Corporation in conjunction with the county AAA committee. These costs would reflect the general level of costs at about the time of planting of the crop. The harvesting costs set that far in advance might not be too accurate but the discrepancies should not be so large as to create much difficulty. These standard costs per operation as well as representative total costs of producing the crop per acre would have to be definitely determined in the selected counties before the actuarial basis for insurance would be finally established.

(c) The filing with the application of a schedule of proposed operations in certain cases would be of some assistance to the county committee and the Corporation in deciding whether or not to accept the application because it would give an advance picture of the type of operations that might be expected on the farm. In irrigated areas it should include a check of the amount of irrigation water available. The preparation of this schedule might have some influence on the insured because he would understand that he would be expected to follow operations that had been approved in the acceptance of his application. The use of this schedule for all applicants would be unnecessary and would perhaps hinder the sale of insurance. It should be used only in certain cases at the discretion of the local committee.

5. <u>When the Insurance Protection Should start and End</u>

Presumably with potato insurance the same policy can be followed as in other crops that the insurance would begin upon the planting of the crop.

Much consideration was given to the time when the insurance protection should cease. It was generally agreed that insurance should cease upon removal of the potatoes from the field but not later than 48 hours after digging. There was much discussion regarding loss of potatoes that occurred during shipping or storing but which originated from causes during the growing period such for example as blight or freeze. Insofar as this damage is known to exist or can be ascertained at the time of adjustment it would be reflected in the value of the potatoes. Any discount on potatoes for this damage of quality would affect the amount of indemnity under the contract. Thus, the loss for this type of damage would be determined on an estimated basis rather than on the final returns. This is not in line with the recommendation of the conferees but following discussions with Department representatives it appeared wise not to become involved in damages during storage or shipping.

6. Closing Dates for Applications for Insurance

Closing dates for applications should be shortly before the earliest planting dates in the area. Since the counties for insurance have not been selected as yet, no final determination can be made but the following dates were discussed by the conferees as possible dates applicable to their state or the area in their states with which they were most familiar.

Maine	April 20
New York	April 1
New Jersey	March 15
Pennsylvania	April 1
Michigan	April 10
Wisconsin	April 10
Minnesota	April 10
North Dakota	April 10
Colorado	April 25
Nebraska	March 20
Washington	March 1
California	November 25
Virginia	February 1
North Carolina	February 10
South Carolina	January 20
Alabama	January 15
Florida (northern area)	December 10
Texas)	September 1
Texas)	December 1

7. Insurance Unit

The insurance unit is the unit established for separate adjustment of losses. The insurance unit should be the farm but with separate units on the same farm if both table stock and certified potatoes are insured. (If there is more than one sharecropper on a farm, his acreage would be a separate unit for him but the total farm acreage would be the unit for the landlord. In other words, for the landlord, separate loss adjustments would not be made where the acreage is broken down between sharecroppers.)

8. Insurance Contract

The application for insurance and the insurance contract would cover all potato crops in the county (or smaller area where insurance is offered) in which the insured had an interest either as owner-operator, tenant, or sharecropper, except that separate applications would be taken for table stock and for certified seed potatoes. In other words, it would not be necessary for the insured to carry insurance both on table stock and certified potatoes. Frequently, in the Western States table stock potatoes are irrigated and certified potatoes are not. Whether this breakdown between insurance on table stock and on certified potatoes will raise any problems

in any area is a question that might need some further consideration. A person furnishing the seed for a share in the crop would have an insurable interest.

9. Insurance on Certified Seed Potatoes

Insurance on certified seed potatoes would be subject to the same maximum coverage limitations in the county as table stock potatoes. Costs for inspections, certifying, etc. would not be counted. However, in adjusting the loss the higher prices received for the certified potatoes would be used in evaluating the production.

10. Unit of Measure

It has been suggested that the unit of measure in all areas be 100 pounds rather than bushels, barrels, or bags.

11. Requirements for Fertilizer, Disease and Insect Control, and Certified Seed

These differ so much between areas that only general provisions could be inserted in the contract and the actual local requirements left up to the county committee and adjuster in each county or area.

12. Causes of Loss Insured Against and Not Insured Against

The general provisions of the regulations for other insured crops would probably apply satisfactorily with regard to potatoes. Causes of loss not insured against generally would be taken care of under the general provisions of failure to properly care for the crop.

13. Premium Rates

It is generally believed that a flat rate per acre for the county or area within a county would be satisfactory as a starting point. Some discussion was given to whether a higher premium should be charged on those farms that had a higher coverage per acre. At first sight, it appears that such should be the case but it was pointed out, for example, that a producer with a coverage of $150 per acre may not be any higher risk than a producer with $100 per acre because the extra $50 cost may bring more than that amount extra in returns per acre. Furthermore, it would not be practicable to vary the premium per acre depending on the level of coverage because the exact amount of coverage would not be known except in those cases where claim for loss was made.

However, farms known to be higher than average risk farms would be given a higher rate than the flat county rate. This would be recommended by the local committee. However, no rate would be made lower than the flat rate for the county.

In examining these high risk farms, some farms might be designated as uninsurable. Furthermore, the Corporation could reject applications from individuals who were considered high risks.